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C O N F I D E N T I A L AIT TAIPEI 002678

SIPDIS

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DEPT FOR EAP/TC

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USTR FOR STRATFORD, ALTBACH, WINELAND

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TAGS: [ETRD](#) [EINV](#) [ECON](#) [PREL](#) [CH](#) [TW](#)  
SUBJECT: VP TSAI ON TRADE, CROSS-STRAIT, CHAD

CLASSIFIED BY: AIT DIRECTOR STEPHEN M. YOUNG, REASONS 1.4 B/D

11. (C) SUMMARY: THE AIT DIRECTOR MET WITH TAIWAN VICE  
PREMIER TSAI ING-WEN, NATIONAL SECURITY COUNCIL (NSC)  
SECRETARY GENERAL CHIOU I-JEN, AND THE NEWLY APPOINTED

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MINISTER OF ECONOMIC AFFAIRS (MOEA) STEVE CHEN (RUEY-LONG)  
ON AUGUST 8 TO DISCUSS TRADE ISSUES IN PREPARATION FOR THE  
VISIT OF AUSTR STRATFORD TO TAIWAN. ON THE WTO GOVERNMENT  
PROCUREMENT AGREEMENT (GPA), TSAI CALLED THE PROPOSED  
COMPROMISE FOR TAIWANS ACCESSION "VERY DIFFICULT, ALMOST  
IMPOSSIBLE." THE DIRECTOR AND TSAI ALSO DISCUSSED  
PHARMACEUTICALS, AGRICULTURE, CROSS-STRAIT INVESTMENT  
RESTRICTIONS, TAIWAN'S LOSS OF CHAD AS A DIPLOMATIC ALLY  
AND MILITARY SALES. END SUMMARY.

12. (C) THE AIT DIRECTOR MET WITH VICE PREMIER TSAI, NSC  
CHIOU, AND MINISTER CHEN ON AUGUST 8 TO DISCUSS THE  
UPCOMING TRIP OF AUSTR TIM STRATFORD AND TEAM TO TAIWAN  
AND OTHER ISSUES. IN EACH OF THESE MEETINGS THE DIRECTOR  
DELIVERED USG POINTS ON THE GPA, PHARMACEUTICALS,  
AGRICULTURE AND URGED TAIWAN OFFICIALS TO BE PREPARED TO  
DISCUSS THESE TOPICS WITH AUSTR STRATFORD ON AUGUST 16.  
THE DIRECTOR AND TSAI REVIEWED IN DETAIL SEVERAL UNRESOLVED  
TRADE TOPICS FROM MAY'S TRADE AND INVESTMENT FRAMEWORK  
AGREEMENT TALKS LED BY DUSTR KARAN BHATIA.

GPA  
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13. (C) ON THE WTO GOVERNMENT PROCUREMENT AGREEMENT (GPA),  
TSAI SAID IT WOULD BE "VERY DIFFICULT, ALMOST IMPOSSIBLE"

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TO ACCEPT THE CURRENT PROPOSAL FOR TAIWANS ACCESSION.  
TSAI EXPLAINED THAT COMMERCIALLY TAIWANS ACCESSION TO THE

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GPA MAKES SENSE, BUT IN ADDITION TO OPPOSITION FROM THE  
TAIWAN SOLIDARITY UNION, THE CHEN ADMINISTRATION WAS  
DIVIDED INTERNALLY ON THE ISSUE. SHE ELABORATED THAT  
TAIWAN HAD NO OBJECTION TO THE GPA'S DOCUMENT NUMBER 87  
BECAUSE IT DID NOT DIRECTLY PARTICIPATE IN THE DRAFTING  
OF THAT DOCUMENT. HOWEVER, THE PROPOSED FOOTNOTE LANGUAGE

FOR TAIWAN'S ACCESSION WAS A VERY DIFFERENT MATTER. ACCORDING TO TSAI, THE LANGUAGE OF THE FOOTNOTE IMPLIES THAT TAIWAN INSTITUTIONS ARE NOT SOVEREIGN. THE DIRECTOR SUGGESTED THAT TAIWAN COULD INTERPRET THE FOOTNOTE IN ITS OWN WAY AND ARGUE THAT THE LANGUAGE HAD NO BEARING ON TAIWAN'S SOVEREIGNTY. HOWEVER, TSAI WAS ADAMANT THAT THE LANGUAGE WAS UNACCEPTABLE, AND THE CHEN ADMINISTRATION WOULD BE UNABLE TO DEFEND IT TO THE TAIWAN PUBLIC. SHE COMPLAINED THAT THE PRC INSISTED ON REOPENING SOVEREIGNTY ISSUES THAT TAIWAN BELIEVES WERE SETTLED ON ITS ACCESSION TO THE WTO IN 2002. SHE URGED THE UNITED STATES TO "STAND UP" TO THE PRC AND INSIST THAT SOVEREIGNTY ISSUES HAD BEEN RESOLVED.

14. (C) IN A MEETING LATER IN THE DAY MOEA CHEN INDICATED THAT ANY DECISION ON GPA WAS UP TO VP TSAI AND THE PRESIDENT. HOWEVER, HE SAID THAT HE PERSONALLY WOULD PREFER TO SEE A BILATERAL GPA WITH THE UNITED STATES THAN TO ACCEPT THE CURRENT CONDITIONS. THE DIRECTOR ALSO RAISED THIS SUBJECT BRIEFLY WITH NSC SECRETARY GENERAL CHIOU I-JEN, WHOSE RESPONSE CLOSELY PARALLELED TSAI'S. COMMENT: IT SEEMS CLEAR THAT TSAI IS A KEY SOURCE OF OPPOSITION TO THE GPA PROPOSAL WITHIN THE CHEN ADMINISTRATION. SHE IS LIKELY ADVISING THE PRESIDENT TO REJECT THE PROPOSAL. A U.S. STRATEGY TO CONVINCE TAIWAN TO ACCEPT IT MOST LIKELY MUST OVERCOME TSAI'S OBJECTIONS. END COMMENT.

#### PHARMACEUTICALS

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15. (C) MOVING TO OTHER TRADE ISSUES, THE DIRECTOR COMMENTED THAT THE U.S. AND TAIWAN HAD REACHED AN UNDERSTANDING ON THE COMMENT PERIOD FOR THE PRICE VOLUME SURVEY (PVS). TSAI AGREED, NOTING THAT THE TAIWAN SIDE HAD CLARIFIED THAT THE TWO-WEEK DEADLINE APPLIED ONLY TO VERIFICATION OF PRICE DATA AND THAT INDUSTRY COMMENTS ON POLICY WERE SUBJECT TO A TWO-MONTH DEADLINE, I.E. UNTIL MID-SEPTEMBER.

#### AGRICULTURE

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16. (C) THE DIRECTOR TOLD TSAI THAT HE HAD MET WITH COUNCIL OF AGRICULTURE CHAIRMAN SU CHIA-CHYUAN, WHO HAD SAID THAT TAIWAN SHOULD BE ABLE TO REVIEW THE MEMORANDUM OF UNDERSTANDING ON THE CONSULTATIVE COMMITTEE ON AGRICULTURE (CCA) BY THE END OF OCTOBER. THIS SHOULD PERMIT THE CCA

TO MEET BEFORE THE END OF THE YEAR OR EARLY NEXT YEAR. TSAI ALSO MENTIONED THAT THE EXECUTIVE YUAN WAS CONCERNED

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ABOUT REPORTS THAT SHIPMENTS OF U.S. BEEF TO TAIWAN HAD INCLUDED BEEF FROM CANADIAN CATTLE. THE DIRECTOR ASSURED HER THAT WE WOULD LOOK INTO THIS ISSUE.

#### CROSS-STRAIT POLICY

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17. (C) THE DIRECTOR PRAISED THE RESULTS OF TAIWAN'S JULY 27-28 SUSTAINABLE ECONOMIC DEVELOPMENT CONFERENCE, WHICH PRODUCED MANY RECOMMENDATIONS FOR LIBERALIZATION OF CROSS-STRAIT ECONOMIC RESTRICTIONS. HE POINTED OUT U.S. SUPPORT FOR THIS EFFORT AS HIGHLIGHTED BY DUSTR BHATIA DURING HIS VISIT TO TAIWAN. TSAI DESCRIBED HERSELF AS "NOT ALL-OUT FOR OPENING" UP TO THE PRC. HOWEVER, THE ADMINISTRATION WANTS TO GIVE INDUSTRY THE FLEXIBILITY IT NEEDS. THE EY WILL LOOK AT PERMITTING SOME FIRMS TO EXCEED THE CURRENT LIMITS ON TOTAL INVESTMENT IN THE PRC. SHE EXPLAINED THAT THE CONTROVERSIAL "40 PERCENT" CEILING ON INVESTMENT IN THE PRC IS ACTUALLY A GRADUATED SCALE OF RESTRICTIONS THAT LIMITS LARGE FIRMS TO SUBSTANTIALLY LESS THAN 40 PERCENT. THE EY WILL ALLOW SOME LARGE FIRMS TO INVEST UP TO THE FULL 40 PERCENT LIMIT THAT APPLIES ONLY TO SMALLER FIRMS UNDER THE CURRENT REGULATIONS. HOWEVER, SHE SAID THAT THERE IS NO URGENCY TO INCREASING THE UPPER LIMIT BEYOND 40 PERCENT AT THIS TIME.

18. (C) FOR A LONGER TERM STRATEGY, TAIWAN IS LOOKING AT

EXPANDING INVESTMENT IN OTHER AREAS. TSAI POINTED OUT THAT TAIWAN HAD PREVIOUSLY BEEN A LARGE INVESTOR IN SOUTHEAST ASIA, BUT AFTER THE ASIAN FINANCIAL CRISIS, MUCH OF TAIWAN'S INVESTMENT HAD BEEN DIVERTED TO THE PRC. THE TAIWAN AUTHORITIES WILL SEEK TO EXPAND INVESTMENT IN SOUTHEAST ASIA AGAIN, AS WELL AS IN INDIA. HOWEVER, TSAI NOTED THOSE AREAS WERE STILL UNABLE TO COMPETE WITH THE PRC ON LOW WAGES. TAIWAN CAN ONLY SLOW DOWN THE PACE OF INVESTMENT IN THE PRC, NOT STOP OR REVERSE IT, TSAI COMMENTED. THE PROBLEM FOR TAIWAN IS NOT SO MUCH THE ABSOLUTE AMOUNT OF INVESTMENT IN THE PRC, BUT RATHER THE HIGH PROPORTION OF TAIWAN'S TOTAL FOREIGN INVESTMENT THERE. TSAI SAID THAT WITH 70 PERCENT OF TAIWAN'S INVESTMENT

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FLOWING TO THE MAINLAND IT IS DIFFICULT TO DEFEND THE POSITION THAT FURTHER OPENING IS NECESSARY.

CHAD

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19. (C) THE DIRECTOR ASKED IF CHAD'S CHANGE OF DIPLOMATIC RECOGNITION FROM TAIWAN TO THE PRC WOULD AFFECT THE AGENDA FOR CROSS-STRAIT LIBERALIZATION IN TAIWAN. TSAI SAID THAT DISCUSSIONS OF CROSS-STRAIT CHARTER FLIGHTS AND TOURISM WOULD NOT BE AFFECTED. HOWEVER, SHE POINTED OUT THAT DELAYS IN OPENING TAIWAN FURTHER TO MAINLAND TOURISTS WERE THE FAULT OF THE PRC. TSAI COMMENTED THAT IF THE PRC WANTED TO MAKE THE NECESSARY CONCESSIONS IT COULD GAIN RECOGNITION FROM ALL OF TAIWAN'S DIPLOMATIC ALLIES OVERNIGHT. WHAT HOLDS THE PRC BACK, TSAI HYPOTHEZIZED, IS THE FEAR THAT SUCH A MOVE WOULD GENERATE RADICALISM IN TAIWAN. THE DIRECTOR EMPHASIZED THE RELATIVE IMPORTANCE OF THE UNITED STATES, JAPAN, THE EUROPEAN UNION AND TAIWAN'S OTHER UNOFFICIAL INTERNATIONAL PARTNERS. TSAI ACKNOWLEDGED THAT CHAD WAS NOT IMPORTANT IN COMPARISON, BUT COMPLAINED THAT THESE ISSUES MATTER MORE TO AN UNPOPULAR ADMINISTRATION LIKE PRESIDENT CHEN'S.

MILITARY SALES

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110. (C) DISCUSSING MILITARY SALES, THE DIRECTOR TOLD TSAI THAT TAIWAN NEEDS TO SHOW THAT IT IS PREPARED TO DEFEND ITSELF. URGING TAIWAN TO ACT SOON, HE UNDERScoreD THE FACT THAT THE POLITICAL ENVIRONMENT FOR PASSAGE OF MILITARY PURCHASE LEGISLATION WOULD BE EVEN MORE DIFFICULT IN 2007. TSAI OBSERVED THAT PRESIDENT CHEN SHUI-BIAN, LEGISLATIVE YUAN PRESIDENT WANG JIN-PYNG, AND KMT CHAIRMAN MA YING-JEOU ARE THE KEY PLAYERS IN THE MILITARY PURCHASE ISSUE AND THAT EACH HAS HIS OWN CALCULATION. IT IS EASIER FOR CHEN AND WANG TO SUPPORT THE ARMS PURCHASE PACKAGE BECAUSE THEIR SUPPORTERS WANT IT, BUT MA FACES A DIFFERENT SITUATION. TSAI URGED THE DIRECTOR TO TELL MA TO BE STRONG, NOTING THAT THE JAPANESE SAY HE'S "A LEADER WITHOUT LEADERSHIP." SHE SAID THAT HE HAS THE POLITICAL CAPITAL TO BE A GOOD LEADER, BUT HE IS AFRAID TO USE IT BEFORE THE 2008 PRESIDENTIAL ELECTION.

YOUNG